

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **City of Farmington, Michigan**

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**Financial Report  
with Supplemental information  
June 30, 2006**

# City of Farmington, Michigan

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## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-10
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14-15
Reconciliation of the Balance Sheet to the Statement of Net Assets	16
Statement of Revenue, Expenditures, and Changes in Fund Balances	17-18
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Funds:	
Statement of Net Assets	20
Statement of Revenue, Expenses, and Changes in Net Assets	21
Statement of Cash Flows	22
Fiduciary Funds:	
Statement of Net Assets	23
Statement of Changes in Net Assets	24
Component Units:	
Statement of Net Assets	25
Statement of Activities	26
Notes to Financial Statements	27-49
<b>Required Supplemental Information</b>	50
Budgetary Comparison Schedule:	
General Fund	51
Major Street Fund	52
Local Street Fund	53
Municipal Street Fund	54
Capital Improvement Fund	55
Retirement System Schedule of Funding Progress	56

# City of Farmington, Michigan

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## Contents (Continued)

<b>Other Supplemental Information</b>	<b>57</b>
Nonmajor Governmental Funds:	
Combining Balance Sheet	58
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	59
Pension and Other Employee Benefit Funds:	
Combining Statement of Net Assets	60
Combining Statement of Changes in Net Assets	61



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## Independent Auditor's Report

To the City Council  
City of Farmington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Farmington, Michigan (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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A worldwide association of independent accounting firms

To the City Council  
City of Farmington, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farmington's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements included in other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moreau, PLLC*

September 15, 2006

# **City of Farmington, Michigan**

## **Management's Discussion and Analysis**

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### **Overview of the Financial Statements**

The City's annual report has been prepared in compliance with Governmental Accounting Standards Board (GASB) Statement No. 34 and consists of management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements were designed to provide a broad overview of the City's finances and are presented on a full accrual basis of accounting, with an emphasis on measuring all economic resources and not just current financial resources as measured in the individual fund statements. These statements make a distinction between governmental activities, such as public safety and public works, and business-type activities, such as the provision of water and sewer services. Two government-wide statements are provided.

One government-wide statement, the statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The other government-wide statement, the statement of activities, provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds and compiled financial information is provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works, proprietary funds, which account for business-type activities such as provision of water and sewer services, and fiduciary funds, which account for assets held for outside parties.

A reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities, such as bonds, accrued interest, and accrued employee leave time, in the government-wide statement of net assets, which are not included in the fund balance sheets; and the recognition of certain revenues and expenditures such as bond proceeds, capital outlays, and debt principal repayment in the individual fund statements, which are not recorded in the government-wide statements.

# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Position and Results of Operation for the City as a Whole

The City had an increase of \$1,537,347 in net assets in its governmental activities for the fiscal year ended June 30, 2006. This increase was primarily the result of a planned accumulation of resources in the City's Street Funds for a significant future road project, and timing differences in the recognition of revenues and expenditures related to the completion of the City's downtown center project. The timing difference resulted from the requirement to record a special assessment revenue related to the downtown center project immediately when the project was completed, while the related depreciation expense will be recorded over the useful life of the assets constructed.

The City had an increase of \$769,205 in net assets in its business-type activities for the fiscal year ended June 30, 2006, due to an increase in net assets of its Water and Sewer Fund of \$798,372 and a decrease in net assets of its Farmington Community Theater Fund of \$29,167. The increase in the Water and Sewer Fund's net assets primarily relates to property tax revenue of \$788,485, which was used to help offset principal and interest payments for the 1990 Sewer Improvement Bonds of \$757,775. Property taxes are recorded as revenue when received. The principal payment is a reduction of a liability and is not recorded as an expense. The decrease in the Farmington Community Theater Fund's net assets primarily relates to the lower than anticipated attendance.

In a condensed format, the tables below show the net assets and changes in net assets (in thousands of dollars) as of June 30, 2006 and 2005.

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets	\$ 10,010	\$ 8,437	\$ 3,447	\$ 3,863	\$ 13,457	\$ 12,300
Noncurrent assets	14,239	12,833	18,023	17,579	32,262	30,412
Total assets	24,249	21,270	21,470	21,442	45,719	42,712
<b>Liabilities</b>						
Current liabilities	1,430	1,087	1,329	1,285	2,759	2,372
Long-term liabilities	3,276	2,178	4,395	5,180	7,671	7,358
Total liabilities	4,706	3,265	5,724	6,465	10,430	9,730
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	10,982	10,756	12,768	11,547	23,750	22,303
Restricted	2,375	1,492	75	77	2,450	1,569
Unrestricted	6,186	5,757	2,903	3,353	9,089	9,110
Total net assets	<u>\$ 19,543</u>	<u>\$ 18,005</u>	<u>\$ 15,746</u>	<u>\$ 14,977</u>	<u>\$ 35,289</u>	<u>\$ 32,982</u>



# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 1,296	\$ 1,345	\$ 3,476	\$ 3,191	\$ 4,772	\$ 4,536
Operating grants and contributions	662	707	-	-	662	707
Capital grants and contributions	1,098	64	323	40	1,421	104
General revenue:						
Property taxes	4,898	4,993	788	798	5,686	5,791
State-shared revenues	970	979	-	-	970	979
Unrestricted investment earnings	404	165	118	57	522	222
Cable franchise fees	66	64	-	-	66	64
Cell tower fees	24	35	-	-	24	35
Miscellaneous	61	28	-	-	61	28
Transfers	(70)	(933)	70	933	-	-
Gain on sale of capital assets	2	14	-	-	2	14
Total revenue	9,411	7,461	4,775	5,019	14,186	12,480
<b>Program Expenses</b>						
General government	1,854	1,752	-	-	1,854	1,752
Public safety	3,101	2,798	-	-	3,101	2,798
Public works	2,266	2,067	-	-	2,266	2,067
Health and welfare	9	13	-	-	9	13
Community and economic development	20	61	-	-	20	61
Recreation and culture	525	773	-	-	525	773
Interest on long-term debt	99	84	-	-	99	84
Water and sewer	-	-	3,619	3,403	3,619	3,403
Community theatre	-	-	387	397	387	397
Total program expenses	7,874	7,548	4,006	3,800	11,880	11,348
<b>Change in Net Assets</b>	<b>\$ 1,537</b>	<b>\$ (87)</b>	<b>\$ 769</b>	<b>\$ 1,219</b>	<b>\$ 2,306</b>	<b>\$ 1,132</b>

### Governmental Activities

The City continues to experience modest but steady growth in tax revenues, which have been capped by state statute since 1996 at 5 percent, or the rate of inflation. Expenses, which had remained relatively stable over a number of years and within the general rate of inflation, continue to see increases greater than inflation, particularly in insurance premiums, including health care premiums, and in the employer contribution for employee pension and retiree health care benefits.

# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

State-shared revenue, statutorily designated to support local community services and historically about 20 percent of the City's general operating revenues, continued to decline in the current year, and is now the third largest revenue source, behind property taxes and charges for service. The State of Michigan continues to capture local government revenues to fund state expenditures. The following is an analysis of the state-shared revenue received by the City:

Year Ended June 30	Statutory Revenue Sharing	Percent Change	Constitutional Revenue Sharing	Percent Change	Total Revenue Sharing	Percent Change
2001	\$ 541,376	-	\$ 676,371	-	\$ 1,217,747	-
2002	480,972	-11.2%	683,261	1.0%	1,164,233	-4.4%
2003	405,331	-15.7%	694,599	1.7%	1,099,930	-5.5%
2004	305,767	-24.6%	687,509	-1.0%	993,276	-9.7%
2005	276,540	-9.6%	702,303	2.2%	978,843	-1.5%
2006	253,471	-8.3%	716,777	2.1%	970,248	-0.9%

The City of Farmington, by policy, strives to maintain a cash surplus sufficient to bridge any expected gap in current year revenues or increases in ordinary, unanticipated current year expenditures. Prudent financial planning places the City in a sound financial position with adequate cash reserves. In 2005, the City received an "AA" bond rating, with the rating agency analysis noting that "the City's financial management is excellent, with both short- and long-term planning taking place."

### **Business-type Activities**

The City operates a water and sewer system and a theatre. The water and sewer system provides water and sewage services to almost all of the City's residents and to some outside users. Rates are set to provide for annual operations, to service debt, and to build an operating cash reserve. Rates are evaluated annually and increased July 1, 2005 by .63 percent for water and 5.41 percent for sewer. Water loss for the year was approximately 12.01 percent of water purchased, and decreased from the prior year by 3.0 percent.

The City operates a theatre, which ended the year with an operating loss, including depreciation charges of \$29,167. The City purchased the theatre in 1999 and anticipated operating deficits for the first several years of operation.

# **City of Farmington, Michigan**

## **Management's Discussion and Analysis (Continued)**

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### **Analysis of Individual Funds**

Of the City's governmental funds, the General Fund and the Major and Local Streets Funds account for all significant ongoing expenditures, except for debt service.

The General Fund ended the fiscal year with a reduction to fund balance of \$6,443. Revenue decreased approximately \$270,000 in the current year. One reason for this reduction is the elimination of a .7 mill levy to fund library appropriations. (The library currently levies its own operating millage.) A second reason for the reduction is that statutory revenue sharing, amounting to \$253,000 in the current year, is no longer recorded in the General Fund. With the State's continuing financial difficulties and resultant reduction in the statutory portion of revenue sharing, City management feels that it is no longer a reliable revenue source to fund ongoing operations. During the current year, the decision was made to record the revenue in its Capital Improvement Fund.

Expenditures in the General Fund decreased \$395,000 because of the elimination of the library appropriation, which amounted to \$263,000 for the year ended June 30, 2005, and modest reductions of expenditures throughout many of the City's departments.

Both the Major and Local Streets Funds continue to have healthy balances. City streets are in excellent condition, and as a result of a voter-approved millage for street construction and maintenance, funding remains adequate for future road projects and road repair needs.

The Capital Improvement Fund recorded the statutory portion of state-shared revenue as revenue in the current year. Transfers were made to other funds to fund capital purchases and debt service.

The Downtown Capital Projects Fund recorded the majority of revenues and expenditures related to the Downtown Development Project in the current year. The Downtown Development Project follows the Downtown Master Plan, and seeks to improve the visual and functional aspects of the downtown district. Included in the project are the building of a pavilion, park, and two new streets. These items have transformed the principal shopping district into a more traditional downtown district. The project was financed through a combination of debt, special assessments, City resources, and private donations. As a result of an AA bond rating, the City was able to issue its bonds at a favorable interest rate and reduce the costs of the overall project.

# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

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### General Operating Fund Budget Highlights

**General Fund** - Actual revenues exceeded budget by \$49,881. The original budget was amended to include increased revenue of \$409,011. Budgeted revenues were increased to include a transfer of \$177,000 from the Capital Improvement Fund related to the purchase of various capital items, and by \$150,000 as a result of higher than anticipated investment earnings due to an increase in interest rates. The remainder of the increase in budgeted revenue related to minor adjustments to various charges for service. Actual expenditures were under budget by \$300,862. The original budget was amended to include an increase in budgeted expenditures of \$409,011. Budgeted expenditures were increased to include \$195,000 of expenditures related to the purchase of the old 47<sup>th</sup> District Court facility, as well as several other smaller capital projects. In addition, the insurance and bonds activity in the budget was combined with general government.

**Major, Local, and Municipal Street Fund** - There were no significant revenue variances from the budget, nor were there any significant amendments to budgeted revenue. The expenditures recorded in these street funds are divided into two categories: construction and operation and maintenance. Variances and amendments to the budget related to construction resulted solely from the timing difference between the time when the projects were budgeted and when work was completed. The timing differences occur because the City's road programs typically span two fiscal years. There were no significant variances or amendments related to operations and maintenance expenditures.

**Capital Improvement Fund** - Actual revenues exceeded budget by \$10,390 as a result of higher than anticipated investment returns. The only significant amendment to budgeted revenues was an increase in budgeted investment income due to higher than anticipated interest rates. Actual expenditures were under budget by \$426,000 due to the fact that a budgeted transfer of \$426,000 to the Downtown Capital Projects Fund was not needed in the current year, as the project was completed significantly under budget. Budgeted expenditures were increased by \$177,000 to include a transfer to the General Fund to provide resources for several capital projects.

# **City of Farmington, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Long-term Debt Activity**

Major capital asset and infrastructure additions in governmental funds consisted of the following:

1. Road improvements in the amount of \$993,689 for local street improvements
2. Parking lot improvements of \$147,501
3. Park improvements of \$650,932
4. Pavilion construction in the amount of \$320,964

Major capital asset and infrastructure additions in the business-type funds consisted primarily of work performed by the City in relation to its Footing Drain Disconnect program in the amount of \$860,551.

During the current year, the City issued \$1,500,000 of Capital Improvement Bonds to fund a portion of the cost of the Downtown Development Project. These bonds will be repaid through a combination of special assessments and property taxes.

### **Economic Factors and Next Year's Budgets and Rates**

The City has enjoyed a relatively stable property tax millage rate over many years with the exception of a millage added in 1991 to provide for extensive revisions to the City's sewer system and a road program millage approved by the voters in 1995 to ensure streets in the City are in excellent repair. With these two additions totaling approximately 4 mills, the millage went from about 11 mills in 1990 to just over 15 mills in 2003. During this time, the City also discontinued special assessments for sidewalk repairs, instead providing for sidewalk repairs through the tax millage.

For the 2005-2006 fiscal year, the City decreased the total number of mills levied by .7 mills. The reduction was made when voters approved a separate operating millage for the Farmington Library, which had previously been supported through contributions by the cities of Farmington and Farmington Hills.

Farmington is a fully developed small city and as such depends on growth in property values to offset growth in expenditures supported by taxes, and to offset reductions in state-shared revenues. Following the passage of what is referred to as Prop A, a constitutional provision and related state legislation limiting local property tax revenues, the City has aggressively sought to increase net assets to protect the City's long-term financial condition.

# **City of Farmington, Michigan**

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## **Management's Discussion and Analysis (Continued)**

Property taxes account for almost 59.5 percent of General Fund revenues, up from 56 percent last fiscal year, and property tax values have grown by an average of 3.71 percent over the last five years. State-shared revenues, which have historically accounted for about 20 percent of General Fund revenues, have declined to about 9.9 percent this year, down from 12.9 percent last fiscal year, and current funding levels remain at risk due to the financial condition and priorities of the State. Due to the uncertainty of state-shared revenues, the City decided to eliminate the statutory portion of state-shared revenue from its General Fund budget and record it instead in the Capital Improvement Fund.

The City budgeted for continued increases in employee and postemployment benefit costs in the 2006-2007 fiscal year, including increased pre-funding of retiree health care benefits. The City has taken steps in labor contract negotiations and other employment agreements to contain the cost of providing health care benefits.

The City has experienced no specific events which it believes will materially impact the finances of the City but notes certain long-term trends such as capped property tax revenues and shrinking state-shared revenues, which will have a direct impact on the City's ability to provide current services as inflation in the cost of providing services reappears. Adequate cash reserves and authorized unlevied millage ensures provision of current services in the near term as the City meets these challenges and plans for the future.

### **Contacting the City's Financial Management**

This financial report is designed to provide accountability of our stewardship of the resources provided by our citizens, taxpayers, and customers and to provide financial information to the City's investors and creditors. If you have any questions about this report or need additional financial information, contact the city manager or city treasurer at City Hall, 23600 Liberty Street, Farmington, Michigan 48335.

# City of Farmington, Michigan

## Statement of Net Assets June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 8,082,452	\$ 2,420,129	\$ 10,502,581	\$ 526,074
Receivables (Note 4)	1,565,578	1,127,807	2,693,385	615
Internal balances	161,257	(161,257)	-	-
Prepaid costs and other assets	200,093	60,536	260,629	-
Restricted assets	-	75,000	75,000	-
Capital assets (Note 5):				
Depreciable	12,730,281	17,768,620	30,498,901	78,732
Nondepreciable	1,508,743	179,008	1,687,751	76,500
<b>Total assets</b>	<b>24,248,404</b>	<b>21,469,843</b>	<b>45,718,247</b>	<b>681,921</b>
<b>Liabilities</b>				
Accounts payable	458,552	423,933	882,485	13,614
Accrued and other liabilities	112,836	34,635	147,471	-
Deferred revenue	210,000	-	210,000	-
Due to other governmental units	-	86	86	12,407
Noncurrent liabilities:				
Bonds payable, due within one year (Note 7)	343,163	785,000	1,128,163	-
Bonds payable, due in more than one year (Note 7)	2,913,718	4,395,000	7,308,718	-
Employee compensated absences, due within one year	305,025	84,975	390,000	-
Employee compensated absences, due in more than one year	362,489	-	362,489	-
<b>Total liabilities</b>	<b>4,705,783</b>	<b>5,723,629</b>	<b>10,429,412</b>	<b>26,021</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	10,982,143	12,767,628	23,749,771	155,232
Restricted:				
Streets and highways	1,833,440	-	1,833,440	-
Sidewalks	77,203	-	77,203	-
Debt service	463,462	-	463,462	-
Bond covenants	-	75,000	75,000	-
Unrestricted	6,186,373	2,903,586	9,089,959	500,668
<b>Total net assets</b>	<b>\$ 19,542,621</b>	<b>\$ 15,746,214</b>	<b>\$ 35,288,835</b>	<b>\$ 655,900</b>

# City of Farmington, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,854,404	\$ 601,449	\$ -	\$ -
Public safety	3,101,492	273,449	12,242	1,802
Public works	2,265,815	380,268	650,091	1,054,100
Health and welfare	8,916	-	-	-
Community and economic development	20,225	5,410	-	-
Recreation and culture	524,229	35,870	-	42,307
Interest on long-term debt	99,117	-	-	-
Total governmental activities	7,874,198	1,296,446	662,333	1,098,209
Business-type activities:				
Water and sewer	3,619,313	3,190,331	-	323,292
Farmington Community Theater	387,124	285,526	-	-
Total business-type activities	4,006,437	3,475,857	-	323,292
Total primary government	<u>\$ 11,880,635</u>	<u>\$ 4,772,303</u>	<u>\$ 662,333</u>	<u>\$ 1,421,501</u>
Component units:				
Downtown Development Authority	\$ 423,252	\$ 35,781	\$ 150,000	\$ 50,000
Brownfield Redevelopment Authority	7,814	-	-	-
Total component units	<u>\$ 431,066</u>	<u>\$ 35,781</u>	<u>\$ 150,000</u>	<u>\$ 50,000</u>

General revenues:  
 Property taxes  
 State-shared revenues  
 Unrestricted investment earnings  
 Cable franchise fees  
 Cell tower fees  
 Miscellaneous  
 Transfers  
 Gain on sale of capital assets

Total general revenues

## Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year



**Statement of Activities**  
**Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (1,252,955)	\$ -	\$ (1,252,955)	\$ -
(2,813,999)	-	(2,813,999)	-
(181,356)	-	(181,356)	-
(8,916)	-	(8,916)	-
(14,815)	-	(14,815)	-
(446,052)	-	(446,052)	-
(99,117)	-	(99,117)	-
(4,817,210)	-	(4,817,210)	-
-	(105,690)	(105,690)	-
-	(101,598)	(101,598)	-
-	(207,288)	(207,288)	-
(4,817,210)	(207,288)	(5,024,498)	-
-	-	-	(187,471)
-	-	-	(7,814)
-	-	-	(195,285)
4,897,574	788,485	5,686,059	223,570
970,248	-	970,248	-
404,259	118,238	522,497	21,250
65,734	-	65,734	-
23,938	-	23,938	-
60,922	-	60,922	-
(69,770)	69,770	-	-
1,652	-	1,652	-
6,354,557	976,493	7,331,050	244,820
1,537,347	769,205	2,306,552	49,535
18,005,274	14,977,009	32,982,283	606,365
<b>\$ 19,542,621</b>	<b>\$ 15,746,214</b>	<b>\$ 35,288,835</b>	<b>\$ 655,900</b>

# City of Farmington, Michigan

	Major Special Revenue Funds			
	General Fund	Major Streets Fund	Local Streets Fund	Municipal Street Fund
<b>Assets</b>				
Cash and investments	\$ 3,812,616	\$ 883,126	\$ 299,281	\$ 601,081
Receivables - Net	438,841	76,266	27,582	-
Prepaid costs and other assets	81,906	-	-	-
Due from other funds	286,501	31,393	9,749	-
Total assets	<u>\$ 4,619,864</u>	<u>\$ 990,785</u>	<u>\$ 336,612</u>	<u>\$ 601,081</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 304,098	\$ 13,641	\$ 4,849	\$ -
Accrued and other liabilities	84,767	-	-	-
Deferred revenue	18,000	-	-	-
Due to other funds	-	17,095	18,311	41,142
Total liabilities	406,865	30,736	23,160	41,142
<b>Fund Balances</b>				
Reserved for:				
Sidewalks	77,203	-	-	-
Debt service	-	-	-	-
Inventory	46,412	-	-	-
Unreserved - Reported in:				
General Fund	2,761,544	-	-	-
Special Revenue Funds	-	903,824	114,297	559,939
Capital Projects Fund	-	-	-	-
Designated (Note 11)	1,327,840	56,225	199,155	-
Total fund balances	4,212,999	960,049	313,452	559,939
Total liabilities and fund balances	<u>\$ 4,619,864</u>	<u>\$ 990,785</u>	<u>\$ 336,612</u>	<u>\$ 601,081</u>

**Governmental Funds  
Balance Sheet  
June 30, 2006**

Major Special Revenue Fund	Major Capital Project Funds	Other Nonmajor Governmental Funds	Total Governmental Funds
Capital Improvement Fund	Downtown Capital Projects Fund		
\$ 2,072,646	\$ 153,564	\$ 10,795	\$ 7,833,109
60,222	300,000	662,667	1,565,578
-	-	-	81,906
119,708	-	-	447,351
<b><u>\$ 2,252,576</u></b>	<b><u>\$ 453,564</u></b>	<b><u>\$ 673,462</u></b>	<b><u>\$ 9,927,944</u></b>
\$ -	\$ 135,964	\$ -	\$ 458,552
-	-	-	84,767
-	300,000	662,667	980,667
208,730	816	-	286,094
208,730	436,780	662,667	1,810,080
-	-	-	77,203
-	-	10,795	10,795
-	-	-	46,412
-	-	-	2,761,544
1,927,654	-	-	3,505,714
-	16,784	-	16,784
116,192	-	-	1,699,412
2,043,846	16,784	10,795	8,117,864
<b><u>\$ 2,252,576</u></b>	<b><u>\$ 453,564</u></b>	<b><u>\$ 673,462</u></b>	<b><u>\$ 9,927,944</u></b>

# City of Farmington, Michigan

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## **Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2006**

<b>Fund Balance - Total Governmental Funds</b>	<b>\$ 8,117,864</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	14,239,024
Long-term liabilities not due and payable in the current period and not reported in the funds, including:	
Compensated absences	(667,514)
Interest payable	(28,069)
Bonds payable	(3,256,881)
Special assessments and other receivables are expected to be collected over several years, and are not available to pay for current year expenditures	770,667
Internal Service Fund is included as part of governmental activities	<u>367,530</u>

<b>Net Assets - Governmental Activities</b>	<b><u><u>\$ 19,542,621</u></u></b>
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# City of Farmington, Michigan

	Major Special Revenue Funds			
	General Fund	Major Streets Fund	Local Streets Fund	Municipal Street Fund
<b>Revenues</b>				
Property taxes	\$ 4,386,080	\$ -	\$ -	\$ 381,204
Licenses and permits	101,491	-	-	-
Federal grants	44,109	-	-	-
State-shared revenues and grants	729,019	457,728	167,042	-
Charges for services	1,284,952	-	-	-
Fines and forfeitures	446,647	-	-	-
Interest and rentals	258,685	30,924	8,075	24,896
Other	119,709	2,715	25,321	-
Total revenues	7,370,692	491,367	200,438	406,100
<b>Expenditures</b>				
Current:				
General government	1,802,352	-	-	-
Court	394,393	-	-	-
Public safety	2,170,034	-	-	-
Public services	982,475	317,743	353,330	-
Health and welfare	8,916	-	-	-
Community and economic development	20,225	-	-	-
Recreation and culture	450,412	-	-	-
Other (payroll taxes, insurance, benefits)	1,692,514	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	17,839	-	-	-
Total expenditures	7,539,160	317,743	353,330	-
<b>Excess of Revenues Over (Under) Expenditures</b>	(168,468)	173,624	(152,892)	406,100
<b>Other Financing Sources (Uses)</b>				
Transfers in	208,730	31,393	209,500	-
Transfers out	(46,705)	-	(39,498)	(240,893)
Proceeds from debt	-	-	-	-
Total other financing sources (uses)	162,025	31,393	170,002	(240,893)
<b>Net Change in Fund Balances</b>	(6,443)	205,017	17,110	165,207
<b>Fund Balances - Beginning of year</b>	4,219,442	755,032	296,342	394,732
<b>Fund Balances - End of year</b>	<b>\$ 4,212,999</b>	<b>\$ 960,049</b>	<b>\$ 313,452</b>	<b>\$ 559,939</b>

**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2006**

Major Special Revenue Fund	Major Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Capital Improvement Fund	Downtown Capital Projects Fund		
\$ -	\$ -	\$ 130,290	\$ 4,897,574
-	-	-	101,491
-	-	-	44,109
253,471	-	-	1,607,260
-	-	-	1,284,952
-	-	-	446,647
83,419	20,076	2,122	428,197
-	236,100	47,333	431,178
336,890	256,176	179,745	9,241,408
-	-	-	1,802,352
-	-	-	394,393
-	-	-	2,170,034
-	1,739,392	-	3,392,940
-	-	-	8,916
-	-	-	20,225
-	-	-	450,412
-	-	-	1,692,514
-	-	141,503	141,503
-	-	121,816	139,655
-	1,739,392	263,319	10,212,944
336,890	(1,483,216)	(83,574)	(971,536)
-	-	86,203	535,826
(278,500)	-	-	(605,596)
-	1,500,000	-	1,500,000
(278,500)	1,500,000	86,203	1,430,230
58,390	16,784	2,629	458,694
1,985,456	-	8,166	7,659,170
<b>\$ 2,043,846</b>	<b>\$ 16,784</b>	<b>\$ 10,795</b>	<b>\$ 8,117,864</b>

# City of Farmington, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006**

**Net Change in Fund Balances - Total Governmental Funds** \$ 458,694

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures; in the  
statement of activities, these costs are allocated over their estimated  
useful lives as depreciation:

Capital outlay expenditures	2,214,835
Depreciation expense - Net of adjustments	(808,298)

Governmental funds do not report a gain or loss on disposal of assets  
but record proceeds from the disposal as revenue  
in the statement of activities; the gain or loss on disposal is  
calculated based on the net book value of the asset and  
proceeds received (751)

Revenue related to special assessments and contributions are recorded  
when earned in the statement of activities, and recorded only  
when available in the governmental funds 770,667

Repayment of bond principal is an expenditure in the governmental funds,  
but not in the statement of activities (where it reduces long-term  
debt) 319,889

Proceeds from debt are not reported as financing sources on the  
statement of activities (1,500,000)

Increase in accrued interest recorded in the statement of activities (8,961)

Decreases in accumulated employee sick and vacation pay, as well as  
estimated general liability claims, are recorded when earned in the  
statement of activities 57,569

Internal Service Funds are included as governmental activities 33,703

**Change in Net Assets of Governmental Activities** \$ 1,537,347

# City of Farmington, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2006

	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 2,341,146	\$ 78,983	\$ 2,420,129	\$ 249,343
Receivables - Net	1,127,807	-	1,127,807	-
Other assets	46,976	13,560	60,536	118,187
Total current assets	3,515,929	92,543	3,608,472	367,530
Noncurrent assets:				
Restricted assets	75,000	-	75,000	-
Capital assets	16,857,972	1,089,656	17,947,628	-
Total noncurrent assets	16,932,972	1,089,656	18,022,628	-
Total assets	20,448,901	1,182,199	21,631,100	367,530
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	412,616	11,317	423,933	-
Accrued and other liabilities	30,343	4,292	34,635	-
Due to other funds	42,330	118,927	161,257	-
Due to other governmental units	-	86	86	-
Current portion of employee compensated absences	84,975	-	84,975	-
Current portion of long-term debt	745,000	40,000	785,000	-
Total current liabilities	1,315,264	174,622	1,489,886	-
Noncurrent liabilities - Long-term debt - Net of current portion	3,920,000	475,000	4,395,000	-
Total liabilities	5,235,264	649,622	5,884,886	-
<b>Net Assets</b>				
Investment in capital assets - Net of related debt	12,192,972	574,656	12,767,628	-
Restricted	75,000	-	75,000	-
Unrestricted net assets	2,945,665	(42,079)	2,903,586	367,530
Total net assets	<u>\$ 15,213,637</u>	<u>\$ 532,577</u>	<u>\$ 15,746,214</u>	<u>\$ 367,530</u>



# City of Farmington, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
<b>Operating Revenues</b>				
Fees	\$ -	\$ 284,851	\$ 284,851	\$ -
Water sales	1,368,222	-	1,368,222	-
Sewage disposal charges	1,701,983	-	1,701,983	-
Service charges	59,636	-	59,636	184,317
Other income	60,490	675	61,165	36,386
Total operating revenues	3,190,331	285,526	3,475,857	220,703
<b>Operating Expenses</b>				
Source of supply	1,667,354	-	1,667,354	-
Transmission, distribution, and maintenance	876,579	-	876,579	-
Administrative and general	959,077	356,375	1,315,452	-
Insurance costs	-	-	-	201,602
Total operating expenses	3,503,010	356,375	3,859,385	201,602
<b>Operating Income (Loss)</b>	(312,679)	(70,849)	(383,528)	19,101
<b>Nonoperating Revenue (Expense)</b>				
Property taxes	788,485	-	788,485	-
Federal grants	320,000	-	320,000	-
Investment income	115,577	2,661	118,238	14,602
Connection fees	3,292	-	3,292	-
Interest expense	(116,303)	(30,749)	(147,052)	-
Total nonoperating revenue (expense)	1,111,051	(28,088)	1,082,963	14,602
<b>Transfers in from Other Funds</b>	-	69,770	69,770	-
<b>Change in Net Assets</b>	798,372	(29,167)	769,205	33,703
<b>Net Assets - Beginning of year</b>	14,415,265	561,744	14,977,009	333,827
<b>Net Assets - End of year</b>	<u>\$ 15,213,637</u>	<u>\$ 532,577</u>	<u>\$ 15,746,214</u>	<u>\$ 367,530</u>

# City of Farmington, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Enterprise Funds			
	Water and Sewer Fund	Farmington Community Theater Fund	Total	Internal Service Fund
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 2,963,775	\$ 285,526	\$ 3,249,301	\$ 220,703
Payments to suppliers	(2,465,849)	(319,252)	(2,785,101)	(225,963)
Payments to employees	(432,441)	-	(432,441)	-
Internal activity - Net payments to other funds	36,356	20,237	56,593	-
Other receipts	60,490	-	60,490	-
Net cash provided by (used in) operating activities	162,331	(13,489)	148,842	(5,260)
<b>Cash Flows from Noncapital Financing Activities -</b>				
Operating transfer	-	136,395	136,395	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of capital assets	(1,026,696)	(20,049)	(1,046,745)	-
Federal grants	320,000	-	320,000	-
Connection fees	3,292	-	3,292	-
Principal and interest paid on capital debt	(851,303)	(70,749)	(922,052)	-
Property taxes	788,485	-	788,485	-
Net cash used in capital and related financing activities	(766,222)	(90,798)	(857,020)	-
<b>Cash Flows from Investing Activities - Interest received on investments</b>	115,577	2,661	118,238	14,602
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(488,314)	34,769	(453,545)	9,342
<b>Cash and Cash Equivalents - Beginning of year</b>	2,904,460	44,214	2,948,674	240,001
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,416,146</b>	<b>\$ 78,983</b>	<b>\$ 2,495,129</b>	<b>\$ 249,343</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 2,341,146	\$ 78,983	\$ 2,420,129	\$ 249,343
Restricted investments (Note 3)	75,000	-	75,000	-
Total cash and cash equivalents	<b>\$ 2,416,146</b>	<b>\$ 78,983</b>	<b>\$ 2,495,129</b>	<b>\$ 249,343</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
Operating income (loss)	\$ (312,679)	\$ (70,849)	\$ (383,528)	\$ 19,101
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	566,093	35,278	601,371	-
Changes in assets and liabilities:				
Receivables	(166,066)	-	(166,066)	-
Due from other funds	20,848	20,258	41,106	-
Other assets	5,234	1,660	6,894	(23,844)
Accounts payable	40,298	557	40,855	-
Accrued and other liabilities	(6,905)	(372)	(7,277)	(517)
Due to other funds	15,508	(21)	15,487	-
Net cash provided by (used in) operating activities	<b>\$ 162,331</b>	<b>\$ (13,489)</b>	<b>\$ 148,842</b>	<b>\$ (5,260)</b>

# City of Farmington, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension and Other Employee Benefits	Private Purpose Trust Fund - Cemetery Perpetual Care Trust	Agency Fund
<b>Assets</b>			
Cash and investments:			
Cash and cash equivalents	\$ 517,840	\$ 19,670	\$ 228,551
U.S. governmental securities	1,956,081	-	-
Corporate stock	6,207,390	-	-
Corporate bonds	2,988,459	-	-
Mutual funds	4,078,138	-	-
Foreign stock	551,481	-	-
Investment pools	1,921,635	-	-
Receivables	87,446	-	-
Total assets	18,308,470	<u>\$ 19,670</u>	<u>\$ 228,551</u>
<b>Liabilities</b>			
Accounts payable	16,411	\$ -	\$ -
Due to other governmental units	-	-	9,447
Accrued and other liabilities	1,435	19,670	219,104
Total liabilities	17,846	<u>\$ 19,670</u>	<u>\$ 228,551</u>
<b>Net Assets - Held in trust for pension and other employee benefits</b>			
	<u>\$ 18,290,624</u>		

# City of Farmington, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Pension and Other Employee Benefits
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 483,138
Net realized and unrealized gain on investments	697,303
Less investment expenses	<u>(123,596)</u>
Net investment income	1,056,845
Contributions:	
Employer	716,935
Employee	<u>56,238</u>
Total contributions	<u>773,173</u>
Total additions	1,830,018
<b>Deductions</b>	
Benefit payments	795,711
Insurance costs	<u>282,808</u>
Total deductions	<u>1,078,519</u>
<b>Net Increase in Plan Net Assets</b>	751,499
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	
Beginning of year	<u>17,539,125</u>
End of year	<u><b>\$ 18,290,624</b></u>

# City of Farmington, Michigan

## Component Units Statement of Net Assets June 30, 2006

	Component Units		
	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 526,001	\$ 73	\$ 526,074
Receivables	615	-	615
Capital assets (Note 5):			
Depreciable	78,732	-	78,732
Nondepreciable	76,500	-	76,500
Total assets	681,848	73	681,921
<b>Liabilities</b>			
Accounts payable	13,614	-	13,614
Due to other governmental units	12,407	-	12,407
Total liabilities	26,021	-	26,021
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	155,232	-	155,232
Unrestricted	500,595	73	500,668
Total net assets	<u>\$ 655,827</u>	<u>\$ 73</u>	<u>\$ 655,900</u>

# City of Farmington, Michigan

## Component Units Statement of Activities June 30, 2006

					Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Downtown Development Authority -</b>							
General government	\$ 423,252	\$ 35,781	\$ 150,000	\$ 50,000	\$ (187,471)	\$ -	\$ (187,471)
<b>Brownfield Redevelopment Authority -</b>							
Redevelopment	7,814	-	-	-	-	(7,814)	(7,814)
Total component units	<b>\$ 431,066</b>	<b>\$ 35,781</b>	<b>\$ 150,000</b>	<b>\$ 50,000</b>	(187,471)	(7,814)	(195,285)
General revenues:							
Property taxes					215,779	7,791	223,570
Unrestricted investment earnings					21,154	96	21,250
Total general revenues					236,933	7,887	244,820
<b>Change in Net Assets</b>					49,462	73	49,535
<b>Net Assets - Beginning of year</b>					606,365	-	606,365
<b>Net Assets - End of year</b>					<b>\$ 655,827</b>	<b>\$ 73</b>	<b>\$ 655,900</b>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Farmington (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although the City’s component units are legally separate entities, in substance, they are part of the City’s operations. (See discussion below for description and treatment of each component unit).

#### **Blended Component Unit**

The City of Farmington Employees’ Retirement System has been blended into the City’s financial statements. The system is governed by a five-member pension board that includes two individuals chosen by the City Council, two individuals chosen by the employees, and one individual, the city manager, who serves by virtue of his position. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

#### **Discretely Presented Component Units**

The Downtown Development Authority (the “Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of 11 individuals, is selected by the mayor with City Council approval. In addition, the Authority’s budget is subject to approval by the City.

The Brownfield Redevelopment Authority (the “BRA”) was created to assist in the redevelopment of environmentally challenged sites within the City. The BRA’s governing body, which consists of five individuals, is appointed by the mayor with City Council approval.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Jointly Governed Organizations**

The City participates in the Michigan 47th District Court Administration Fund and the Farmington Community Library with the City of Farmington Hills. The City provides approximately 13 percent of the funding for the Michigan 47th District Court Administration Fund, and has recorded an equity interest in the amount of \$15,014 for the year ended June 30, 2006. The Library receives funding from a voter-approved operating millage expiring in 2024. With the approval of the operating millage, the City discontinued its funding of the library's operations.

Complete financial statements for the 47th District Court Administration Fund and the Farmington Community Library can be obtained from the City's administrative offices at 23600 Liberty Street, Farmington, Michigan 48335.

The City participates in the Southwest Oakland Cable Commission (the "Cable Commission") as a joint venture with the cities of Farmington Hills and Novi. The Cable Commission receives 3 percent of the total cable television charges from the cable television company as franchise fees and currently does not receive a subsidy from the City. Financial information for the joint venture can be obtained from the Cable Commission's administrative offices at 33300 Nine Mile Road, Farmington, Michigan.

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC). The RRRASOC is incorporated by the cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of South Lyon. The RRRASOC receives its operating revenue from member contributions and miscellaneous income. The City contributed \$12,768 for the year ended June 30, 2006. Financial information for the RRRASOC can be obtained from the RRRASOC's administrative offices at 20000 West Eight Mile Road, Southfield, Michigan.

For all the above joint ventures, the City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the future.



### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and state-shared revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- **General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Major Street Fund** - The Major Street Fund accounts for the resources obtained through state gas and weight tax revenues that are restricted for use on major streets.
- **Local Street Fund** - The Local Street Fund accounts for the resources obtained through state gas and weight tax revenues that are restricted for use on local streets.
- **Municipal Street Fund** - The Municipal Street Fund accounts for the resources obtained through property taxes that are used for both major and local street projects.

### Note I - Summary of Significant Accounting Policies (Continued)

- **Capital Improvement Fund** - The Capital Improvement Fund accounts for the resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, downtown development, and enterprise projects; and for the acquisition of major capital assets.
- **Downtown Capital Projects Fund** - The Downtown Capital Projects Fund accounts for the resources obtained through debt issuance, city resources, and private donations, which are used for the purpose of constructing a pavilion, parks, and two residential streets in the downtown area.

The City reports the following major proprietary funds:

- **Water and Sewer Fund** - The Water and Sewer Fund accounts for the water distribution system and sewage collection system.
- **Farmington Community Theater Fund** - The Farmington Community Theater Fund accounts for the operations of the Civic Theatre.

Additionally, the City reports the following fund types:

**Internal Service Fund** - The Self-insurance Fund accounts for the portion of the City's insurance liability not covered by commercially provided insurance.

**Pension and Other Employee Benefits Funds** - The Pension and Other Employee Benefits Funds account for the resources set aside by the City to provide retirement, health, and insurance benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.

**Private Purpose Trust Fund** - The Private Purpose Trust Fund accounts for resources restricted for the upkeep and maintenance of the City's cemetery.

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund recognizes federal grants as nonoperating revenue, since the funds are intended to recover the cost of the related infrastructure.

Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Property Taxes** - All trade and property tax receivables are shown as net of allowance for uncollectible amounts, if deemed necessary. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties are assessed.

### **Note I - Summary of Significant Accounting Policies (Continued)**

The 2005 taxable valuation of the City totaled \$393 million, on which ad valorem taxes levied consisted of 10.9163 mills for the City's operating purposes, .1000 mills for sidewalk maintenance, 2.1273 mills for drain and sewer improvements, 1.0000 mills for street improvements and maintenance, and .2727 mills for debt service related to the new 47<sup>th</sup> District Court facility. The ad valorem taxes levied raised \$4,214,000 for operations, \$39,000 for sidewalk maintenance, \$822,000 for drain and sewer improvements, \$386,000 for street improvements and maintenance, and \$105,000 for debt service related to the 47<sup>th</sup> District Court facility. These amounts are recognized in the respective General, Special Revenue, Debt Service, and Enterprise Funds as tax revenue.

**Prepaid Costs and Other Assets** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Other assets consist primarily of inventories, which are valued at cost, on a first-in, first-out basis.

**Restricted Assets** - Restricted assets consist of cash and cash equivalents in the amount of \$75,000 in the Water and Sewer Fund. These assets are restricted for a replacement reserve as required by the 1991 Water Supply and Sewer Disposal System Bond ordinance

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$4,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

The City's capital assets are depreciated using the straight-line method over the following useful lives:

Flowage rights	25 years
County roads	20-30 years
Infrastructure	10-50 years
Buildings and improvements	5-80 years
Court building	10-50 years
Equipment and other	4-25 years
Vehicles	3-30 years
Water and sewer mains	50 years
Water storage tank	50 years
Water meters	20 years
Truck and tractors	7-15 years
Office equipment	5-20 years
Other equipment	5-15 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. In the government-wide and proprietary fund financial statements, a portion of the vacation and sick pay is accrued when incurred for the amount that would be paid out upon separation of the employee from the City. In the governmental funds, a liability for these amounts is reported only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Cash Equivalents** - For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Construction Code Fees** - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2005		\$ (131,166)
Current year building permit revenue		69,829
Related expenses:		
Direct costs	\$ 91,749	
Estimated indirect costs	<u>9,175</u>	
Total construction code expenses		<u>100,924</u>
Net shortfall for the year ended June 30, 2006		<u>(31,095)</u>
Cumulative shortfall at June 30, 2006		<u><u>\$ (162,261)</u></u>

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - The City Charter requires the city manager to submit a budget for the next fiscal year to the City Council on or before the third Monday in April, and the City Council to adopt, by resolution, a budget for the next fiscal year on or after May 1 and not later than the first Monday in June. The City Council may pass amendments to the budget during the fiscal year by resolution.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and major Special Revenue Funds is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the nonmajor funds can be obtained from the City offices at 23600 Liberty Street, Farmington, MI 48335.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Transfers from other funds and proceeds from sale of assets have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City did not have significant expenditure budget variances.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers’ acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust fund and retiree health care fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund’s assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.



# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 3 - Deposits and Investments (Continued)

The City has designated three banks for the deposit of its funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all of the above investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$3,358,106 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investments	0-5 years	5-15 years	> 15 years
Collateralized mortgage obligations	\$ 187,598	\$ -	\$ -
Corporate bonds	870,699	1,664,268	213,899
U.S. federal agencies	96,581	91,445	1,768,056
Small business administration	-	51,995	-
Mutual funds	1,814,831	-	-
Total	<u>\$ 2,969,709</u>	<u>\$ 1,807,708</u>	<u>\$ 1,981,955</u>

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investments	Fair Value	Rating	Rating Organization
U.S. federal agencies	\$ 1,894,955	Not Rated	
Collateralized mortgage obligations	187,598	Not Rated	
Corporate bonds	51,995	Not Rated	
Corporate bonds	151,724	AAA	Standard and Poor's
Corporate bonds	93,426	AA	Standard and Poor's
Corporate bonds	456,140	A+	Standard and Poor's
Corporate bonds	499,392	A	Standard and Poor's
Corporate bonds	323,839	AA-	Standard and Poor's
Corporate bonds	408,625	A-	Standard and Poor's
Corporate bonds	205,172	BBB+	Standard and Poor's
Corporate bonds	412,221	BBB	Standard and Poor's
Corporate bonds	198,328	BBB-	Standard and Poor's
Pooled investments	4,870,339	Aaa	Moody's
Pooled investments	3,649,381	Not Rated	

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Capital Improvement Fund	Downtown Capital Projects Fund	Other Nonmajor Governmental Funds	Total
Receivables:							
Taxes	\$ 106,716	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 106,716
Special assessments	18,000	-	-	-	-	662,667	680,667
Intergovernmental	259,692	76,266	27,582	57,247	-	-	420,787
Interest and other	54,433	-	-	2,975	300,000	-	357,408
Total receivables	<u>\$ 438,841</u>	<u>\$ 76,266</u>	<u>\$ 27,582</u>	<u>\$ 60,222</u>	<u>\$ 300,000</u>	<u>\$ 662,667</u>	<u>\$ 1,565,578</u>

Receivables as of year end for the City's Enterprise Fund are as follows:

	Water and Sewer Fund
Receivables:	
Taxes	\$ 85,265
Customer receivables	1,034,613
Intergovernmental	4,837
Other	<u>3,092</u>
Total receivables	<u>\$ 1,127,807</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period. All funds, governmental and business-type, also defer revenue recognition in connection with resources that have been received or recorded as accounts receivable but not earned. At the end of the fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 470,667	\$ 210,000
Private contributions	<u>300,000</u>	<u>-</u>
Total	<u>\$ 770,667</u>	<u>\$ 210,000</u>

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Transfers	Additions	Disposals and Adjustments	Balance June 30, 2006
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 1,346,002	\$ -	\$ -	\$ -	\$ 1,346,002
Equity investment in 47th District Court	14,469	-	545	-	15,014
Construction in progress - Street projects	-	-	147,727	-	147,727
Construction in progress - Downtown development	225,813	(225,813)	-	-	-
Subtotal	1,586,284	(225,813)	148,272	-	1,508,743
Capital assets being depreciated/ amortized:					
Flowage rights	946,170	-	-	-	946,170
County roads	391,690	-	-	-	391,690
Infrastructure	9,674,002	-	1,792,122	-	11,466,124
Buildings and improvements	2,802,986	225,813	104,113	-	3,132,912
Court building	2,310,486	-	-	-	2,310,486
Equipment and other	639,983	-	63,753	-	703,736
Vehicles	1,173,004	-	106,575	(10,123)	1,269,456
Subtotal	17,938,321	225,813	2,066,563	(10,123)	20,220,574
Accumulated depreciation/ amortization:					
Flowage rights	587,228	-	37,847	-	625,075
County roads	26,113	-	13,056	-	39,169
Infrastructure	3,659,535	-	454,123	-	4,113,658
Buildings and improvements	1,200,104	-	98,512	-	1,298,616
Court building	129,617	-	58,383	-	188,000
Equipment and other	477,754	-	39,730	-	517,484
Vehicles	611,016	-	106,647	(9,372)	708,291
Subtotal	6,691,367	-	808,298	(9,372)	7,490,293
Net capital assets being depreciated	11,246,954	225,813	1,258,265	(751)	12,730,281
Net capital assets	\$ 12,833,238	\$ -	\$ 1,406,537	\$ (751)	\$ 14,239,024

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 174,009	\$ -	\$ -	\$ 174,009
Construction in progress	31,605	4,999	(31,605)	4,999
Subtotal	205,614	4,999	(31,605)	179,008
Capital assets being depreciated:				
Building	1,869,017	-	-	1,869,017
Water and sewer mains	24,019,991	990,464	-	25,010,455
Water storage tank	53,791	-	-	53,791
Water meters	147,086	3,195	-	150,281
Truck and tractors	358,310	-	-	358,310
Office equipment	286,910	51,128	-	338,038
Other equipment	168,598	28,566	(2,252)	194,912
Subtotal	26,903,703	1,073,353	(2,252)	27,974,804
Accumulated depreciation:				
Buildings	610,298	51,325	-	661,623
Water and sewer mains	8,273,222	482,357	-	8,755,579
Water storage tank	49,496	1,076	-	50,572
Water meters	131,822	2,070	-	133,892
Truck and tractors	237,594	33,536	-	271,130
Office equipment	214,978	19,811	-	234,789
Other equipment	89,653	11,196	(2,250)	98,599
Subtotal	9,607,063	601,371	(2,250)	10,206,184
Net capital assets being depreciated	17,296,640	471,982	(2)	17,768,620
Net capital assets	<u>\$ 17,502,254</u>	<u>\$ 476,981</u>	<u>\$ (31,607)</u>	<u>\$ 17,947,628</u>

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets (Continued)

Component Unit	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated -				
Land	\$ 76,500	\$ -	\$ -	\$ 76,500
Capital assets being depreciated:				
Land improvements	92,876	498	-	93,374
Office equipment	4,380	-	-	4,380
Green areas	29,914	-	-	29,914
Subtotal	127,170	498	-	127,668
Accumulated depreciation:				
Land improvements	13,277	2,242	-	15,519
Office equipment	1,752	1,752	-	3,504
Green areas	29,913	-	-	29,913
Subtotal	44,942	3,994	-	48,936
Net capital assets being depreciated	82,228	(3,496)	-	78,732
Net capital assets	<u>\$ 158,728</u>	<u>\$ (3,496)</u>	<u>\$ -</u>	<u>\$ 155,232</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 98,881
Public safety	126,488
Public works	509,112
Recreation and culture	73,817
Total governmental activities	<u>\$ 808,298</u>
Business-type activities:	
Water and sewer	\$ 566,093
Theater	35,278
Total business-type activities	<u>\$ 601,371</u>

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Major Streets Fund	\$ 17,095
	Local Streets Fund	18,311
	Capital Improvement	208,730
	Water and Sewer Fund	42,330
	Farmington Community Theater Fund	35
	Total General Fund	286,501
Major Streets Fund	Municipal Streets Fund	31,393
Local Streets Fund	Municipal Streets Fund	9,749
Capital Improvement Fund	Downtown Capital Projects Fund	816
	Farmington Community Theater Fund	118,892
Total Capital Improvement Fund		119,708
Total Governmental Funds		<u>\$ 447,351</u>

Interfund balances arise from budgeted transfers occurring subsequent to year end and a short-term operating loan from the Capital Improvement Fund to the Theater Fund.

### Interfund Transfers

	Transfers Out				Total
	General Fund	Local Streets Fund	Municipal Streets Fund	Capital Improvement Fund	
Transfers in:					
General Fund	\$ -	\$ -	\$ -	\$ 208,730	\$ 208,730
Major Streets Fund	-	-	31,393	-	31,393
Local Streets Fund	-	-	209,500	-	209,500
Nonmajor funds	46,705	39,498	-	-	86,203
Farmington Community Theater Fund	-	-	-	69,770	69,770
Total	<u>\$ 46,705</u>	<u>\$ 39,498</u>	<u>\$ 240,893</u>	<u>\$ 278,500</u>	<u>\$ 605,596</u>

### **Note 6 - Interfund Receivables, Payables, and Transfers (Continued)**

The transfer from the General Fund to the nonmajor funds (Special Assessment Debt Service Fund) was made primarily to finance the Downtown Capital Projects debt service.

The transfer from the Local Streets Fund to the nonmajor funds (1995 Act 175 Debt Fund) was made to pay for debt service on the 1995 Michigan Transportation Fund bonds.

The transfers from the Municipal Streets Fund to the Major and Local Streets Funds were made to finance a portion of the cost of the City's road programs.

The transfer from the Capital Improvement Fund to the General Fund was made to provide funds for the purchase of various capital assets. The transfer from the Capital Improvement Fund to the Farmington Theater Fund was made to cover the debt service associated with the purchase of the theatre.

### **Note 7 - Long-term Debt**

The City issues bonds to provide for the acquisition and construction of major capital facilities. The general obligation bonds are direct obligations and pledge the full faith and credit of the City. The county drain contracts and Michigan Transportation Fund Bonds are also general obligations of the government. The Court Building Agreement with Farmington Hills provides for future payments to Farmington Hills related to the City's purchase of the old 47<sup>th</sup> District Court building from Farmington Hills. The Building Authority Bonds are general obligations of the Farmington Hills Building Authority. Both the City of Farmington and the City of Farmington Hills have signed lease agreements with the Farmington Hills Building Authority, which provide for lease payments in the exact amount of the debt service on the Building Authority Bonds. The City of Farmington's portion of these lease payments is recorded below. Revenue bonds involve a pledge of specific income derived from the acquired or constructed access to pay debt service.



# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
Bond and contract obligations:							
Transportation Fund Bond:							
1995 Michigan Transportation Fund Bonds:							
Amount of issue - \$380,000	5.25%-	\$35,000					
Maturing through 2009	5.65%	\$40,000	\$ 180,000	\$ -	\$ (30,000)	\$ 150,000	\$ 35,000
County drain contract:							
2003 Caddell Drain Refunding Issue:							
Amount of issue - \$286,280	2.0%-	\$22,934-					
Maturing through 2014	4.0%	\$26,097	245,948	-	(22,143)	223,805	26,097
Court Building Agreement with Farmington Hills							
Amount of issue - \$356,772							
Maturing through 2007	5.0%	\$178,386	356,772	-	(178,386)	178,386	178,386
Building Authority Bonds:							
2001 Building Authority Bonds -							
47th District Court:							
Amount of issue - \$1,400,300*	3.875%-	\$53,680-					
Maturing through 2021	5.0%	\$134,200	1,294,050	-	(39,360)	1,254,690	53,680
2005 Capital Improvement Bond							
Amount of issue - \$1,500,000	3.50%-	\$50,000-					
Maturing through 2019	4.0%	\$155,000	-	1,500,000	(50,000)	1,450,000	50,000
Total governmental activities			\$ 2,076,770	\$ 1,500,000	\$ (319,889)	\$ 3,256,881	\$ 343,163
<b>Business-type Activities</b>							
General obligation bonds:							
1990 Sewer Improvements:							
Amount of issue - \$12,000,000		\$665,000-					
Maturing through 2010	2.0%	\$725,000	\$ 4,130,000	\$ -	\$ (655,000)	\$ 3,475,000	\$ 665,000
2003 Capital Improvement Sewer Bonds:							
Amount of issue - \$900,000	3.2%-	\$30,000-					
Maturing through 2023	4.8%	\$60,000	850,000	-	(30,000)	820,000	30,000
Revenue bonds:							
1991 Water Supply and Sewer Disposal							
System Bonds:							
Amount of issue - \$934,212		\$50,000-					
Maturing through 2013	2.0%	\$55,000	420,000	-	(50,000)	370,000	50,000
1999 Community Theatre Bonds:							
Amount of issue - \$690,000	5.0%-	\$40,000-					
Maturing through 2015	5.95%	\$65,000	555,000	-	(40,000)	515,000	40,000
Total business-type activities			\$ 5,955,000	\$ -	\$ (775,000)	\$ 5,180,000	\$ 785,000

\* Amount represents the City of Farmington's portion of bonds issued by the City of Farmington Hills' Building Authority.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental and business-type bonds and contracts are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 343,163	\$ 136,801	\$ 479,964	\$ 785,000	\$ 130,978	\$ 915,978
2008	163,987	121,543	285,530	810,000	113,298	923,298
2009	173,196	114,791	287,987	825,000	95,065	920,065
2010	186,616	107,673	294,289	855,000	76,278	931,278
2011	150,825	100,920	251,745	875,000	56,719	931,719
2012-2016	1,129,084	384,970	1,514,054	635,000	162,748	797,748
2017-2021	1,110,010	140,272	1,250,282	275,000	60,125	335,125
2022-2023	-	6,710	6,710	120,000	5,745	125,745
Total	<u>\$ 3,256,881</u>	<u>\$ 1,113,680</u>	<u>\$ 4,370,561</u>	<u>\$ 5,180,000</u>	<u>\$ 700,956</u>	<u>\$ 5,880,956</u>

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits provided to employees, and participates in the Michigan Municipal Risk Management Authority, a risk pool for claims relating to property loss, torts, and errors and omissions. The City also participates in the Michigan Municipal League (MML) risk pool for employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The MML risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The activity for the Authority is accounted for in the Self-insurance Fund.

### **Note 9 - Defined Benefit Pension Plan**

#### **Plan Description**

The City of Farmington Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Farmington; this plan covers nearly all employees of the City. The system provides retirement and disability benefits to plan members and their beneficiaries. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 37 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 54 current active employees. The plan does not issue a separate financial report.

#### **Contributions**

Plan member contributions are recognized in the period in which the contributions are made. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by ordinance and by negotiation with the City's competitive bargaining units and employee groups and requires a contribution from the employees of 0 percent to 3 percent, depending on employee group. The funding policy provides for periodic employer contributions at actuarially determined rates. Investment management costs of the plan are paid by the plan.

#### **Annual Pension Costs**

For the year ended June 30, 2006, the City's annual pension cost of \$341,110 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004, using the entry actual age actuarial cost method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually (including an inflation component of 5 percent), (b) projected salary increases of 5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 5 percent per year, depending on age, attributable to seniority/merit, and (d) no postretirement benefit increase. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The excess of assets over the actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 20 years.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 9 - Defined Benefit Pension Plan (Continued)

#### Reserves

As of June 30, 2006, the plan's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$ 371,624
Reserves for retired benefit payments	9,437,390

Three-year trend information follows:

	Fiscal Year Ended December 31		
	2006	2005	2004
Annual pension costs (APC)	\$ 341,110	\$ 206,638	\$ 141,974
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

### Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees and their eligible beneficiaries upon retirement, in accordance with labor contracts and employee agreements, and in accordance with the City of Farmington's Retiree Health Care Plan (the "Plan"). The Plan was established by ordinance and created under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999 and is administered by the City of Farmington. The Plan funds the City's share of retiree health care insurance premiums, which are based on the employee's years of service. The City has received an actuarial estimate of the cost of providing retiree health care insurance and is required by ordinance to begin funding the Plan on an actuarial basis on or before July 1, 2008. Currently, 36 retirees are eligible and 28 are participating. Contributions to the health care plan amounted to \$374,685 and expenditures for insurance premiums during the year amounted to approximately \$323,000.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2006

### Note 11 - Designated Fund Balance

The following is a summary of the unreserved fund balances of certain governmental funds with management's designations:

	General Fund	Major Street Fund	Local Street Fund	Capital Improvement Fund
Designated for:				
Cemeteries	\$ 46,259	\$ -	\$ -	\$ -
Accrued benefits	667,514	-	-	-
Other	434,444	-	-	-
Subsequent year's expenditures	<u>179,623</u>	<u>56,225</u>	<u>199,155</u>	<u>116,192</u>
Total designated	<u>\$ 1,327,840</u>	<u>\$ 56,225</u>	<u>\$ 199,155</u>	<u>\$ 116,192</u>

## **Required Supplemental Information**

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# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Resources (Inflows)</b>				
Property taxes	\$ 4,403,680	\$ 4,385,675	\$ 4,386,080	\$ 405
Licenses and permits	108,035	104,085	101,491	(2,594)
Federal grants	68,840	69,840	44,109	(25,731)
State-shared revenues and grants	751,755	736,490	729,019	(7,471)
Charges for services	1,266,291	1,263,686	1,284,952	21,266
Fines and forfeits	405,500	412,500	446,647	34,147
Interest and rents	98,320	248,825	258,685	9,860
Other revenue	60,370	99,710	119,709	19,999
Transfers from other funds	31,000	208,730	208,730	-
Appropriation from fund balance	283,925	357,186	-	(357,186)
Total resources (inflows)	7,477,716	7,886,727	7,579,422	(307,305)
<b>Charges to Appropriations (Outflows)</b>				
General government	1,549,104	1,892,406	1,802,352	90,054
Court	427,331	427,331	394,393	32,938
Public safety	2,254,805	2,213,363	2,170,034	43,329
Public services	935,380	1,039,265	982,475	56,790
Health and welfare	10,473	11,473	8,916	2,557
Community and economic development	14,200	24,400	20,225	4,175
Recreation and culture	491,647	488,232	450,412	37,820
Insurance and bonds	118,000	-	-	-
Other (payroll taxes, insurances, benefits)	1,621,132	1,701,811	1,692,514	9,297
Interest	-	17,840	17,839	1
Transfers to other funds	55,644	70,606	46,705	23,901
Total charges to appropriations (outflows)	7,477,716	7,886,727	7,585,865	300,862
<b>Transfers to Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,443)</b>	<b>\$ (6,443)</b>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Street Fund

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Resources (Inflows)</b>				
State-shared revenue	\$ 399,000	\$ 383,000	\$ 388,460	\$ 5,460
Contracts and grants	101,945	88,020	69,268	(18,752)
Other revenue	5,000	28,400	33,639	5,239
Transfers from Municipal Streets Fund	315,000	300,000	31,393	(268,607)
Appropriations from fund balance	<u>2,680</u>	<u>(120,990)</u>	<u>-</u>	<u>120,990</u>
Total resources (inflows)	823,625	678,430	522,760	(155,670)
<b>Charges to Appropriations (Outflows)</b>				
Construction	522,500	375,000	105,608	269,392
Operations and maintenance	301,125	303,430	212,135	91,295
Transfer to Local Streets Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>823,625</u>	<u>678,430</u>	<u>317,743</u>	<u>360,687</u>
<b>Transfers to Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,017</u>	<u>\$ 205,017</u>



# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Resources (Inflows)</b>				
State-shared revenue	\$ 171,345	\$ 164,490	\$ 167,042	\$ 2,552
Transfer from Muncipal Streets Fund	39,450	209,500	209,500	-
Other revenue	26,500	31,500	33,396	1,896
Appropriations from fund balance	(23,905)	(16,035)	-	16,035
Total resources (inflows)	213,390	389,455	409,938	20,483
<b>Charges to Appropriations (Outflows)</b>				
Construction	-	173,000	171,864	1,136
Operations and maintenance	173,940	176,955	181,466	(4,511)
Debt service	39,450	39,500	39,498	2
Total charges to appropriations (outflows)	213,390	389,455	392,828	(3,373)
<b>Transfers to Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,110</b>	<b>\$ 17,110</b>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Municipal Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Resources (Inflows)</b>				
Property taxes	\$ 385,985	\$ 381,205	\$ 381,204	\$ (1)
Other income	6,000	23,300	24,896	1,596
Appropriations to fund balance	(37,535)	104,995	-	(104,995)
Total resources (inflows)	354,450	509,500	406,100	(103,400)
<b>Charges to Appropriations (Outflows)</b>				
Transfer to Major Streets Fund	315,000	300,000	31,393	268,607
Transfer to Local Streets Fund	39,450	209,500	209,500	-
Total charges to appropriations (outflows)	354,450	509,500	240,893	268,607
<b>Transfer to Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,207</u>	<u>\$ 165,207</u>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Capital Improvement Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance With Amended Budget
<b>Resources (Inflows)</b>				
State-shared revenue	\$ 244,150	\$ 252,500	\$ 253,471	\$ 971
Investment income	20,000	74,000	83,419	9,419
Appropriations from fund balance	<u>192,850</u>	<u>378,000</u>	<u>-</u>	<u>(378,000)</u>
Total resources (inflows)	457,000	704,500	336,890	(367,610)
<b>Charges to Appropriations (Outflows)</b>				
Transfer to General Fund	31,000	208,730	208,730	-
Transfer to Downtown Capital Projects Fund	426,000	426,000	-	426,000
Transfer to Theatre Fund	<u>-</u>	<u>69,770</u>	<u>69,770</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>457,000</u>	<u>704,500</u>	<u>278,500</u>	<u>426,000</u>
<b>Transfers to Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,390</u>	<u>\$ 58,390</u>

# City of Farmington, Michigan

## Required Supplemental Information Retirement System Schedule of Funding Progress Year Ended June 30, 2006 (dollar amounts in millions)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/00	\$ 16.00	\$ 10.70	\$ (5.30)	149.5	\$ 2.8	-
06/30/01	16.80	11.70	(5.10)	143.6	2.7	-
06/30/02	16.70	12.70	(4.00)	131.5	2.9	-
06/30/03	16.20	13.30	(2.90)	121.8	2.9	-
06/30/04	15.80	14.70	(1.10)	107.7	2.9	-
06/30/05	15.90	15.90	-	100.4	2.9	-

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
2001	06/30/00	\$ 89,216	100.0
2002	06/30/01	9,873	100.0
2003	06/30/02	24,962	100.0
2004	06/30/03	141,974	100.0
2005	06/30/04	206,638	100.0
2006	06/30/05	341,110	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation, follows:

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	5%-10%
*Includes inflation at	5%
Cost of living adjustments	None

## **Other Supplemental Information**

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# City of Farmington, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Debt			Total Nonmajor
	Nonvoted	1995	Special	Governmental
	Debt Service	Act 175	Assessment Debt	Funds
		Debt	Service	
<b>Assets</b>				
Cash and investments	\$ 10,585	\$ -	\$ 210	\$ 10,795
Receivables	-	-	662,667	662,667
Total assets	<u>\$ 10,585</u>	<u>\$ -</u>	<u>\$ 662,877</u>	<u>\$ 673,462</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b> - Deferred revenue	\$ -	\$ -	\$ 662,667	\$ 662,667
<b>Fund Balances</b> - Reserved	10,585	-	210	10,795
Total liabilities and fund balances	<u>\$ 10,585</u>	<u>\$ -</u>	<u>\$ 662,877</u>	<u>\$ 673,462</u>

# City of Farmington, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2006

	Debt Service Funds			Total Nonmajor Governmental Funds
	Nonvoted Debt Service	1995 Act 175 Debt	Special Assessment Debt Service	
<b>Revenues</b>				
Property taxes	\$ 130,290	\$ -	\$ -	\$ 130,290
Special assessment	-	-	47,333	47,333
Interest income	1,914	-	208	2,122
Total revenues	132,204	-	47,541	179,745
<b>Expenditures</b>				
Principal	61,503	30,000	50,000	141,503
Interest	68,282	9,498	44,036	121,816
Total expenditures	129,785	39,498	94,036	263,319
<b>Excess of Revenues Over (Under) Expenditures</b>	2,419	(39,498)	(46,495)	(83,574)
<b>Other Financing Sources</b> - Transfers in	-	39,498	46,705	86,203
<b>Net Change in Fund Balances</b>	2,419	-	210	2,629
<b>Fund Balances</b> - Beginning of year	8,166	-	-	8,166
<b>Fund Balances</b> - End of year	<u>\$ 10,585</u>	<u>\$ -</u>	<u>\$ 210</u>	<u>\$ 10,795</u>

# City of Farmington, Michigan

## Other Supplemental Information Combining Statement of Net Assets Pension and Other Employee Benefit Funds June 30, 2006

	Pension and Other Employee Benefits				Total
		Public	Employee	Disability	
		Employee	Fringe	Health	
	Employees' Retirement System	Health Care Fund	Benefits Fund	Insurance Fund	
<b>Assets</b>					
Cash and investments:					
Cash and cash equivalents	\$ 517,840	\$ -	\$ -	\$ -	\$ 517,840
U.S. governmental securities	1,956,081	-	-	-	1,956,081
Corporate stock	6,207,390	-	-	-	6,207,390
Corporate bonds	2,988,459	-	-	-	2,988,459
Mutual funds	4,078,138	-	-	-	4,078,138
Foreign stock	551,481	-	-	-	551,481
Investment pools	-	1,855,738	5,943	59,954	1,921,635
Receivables	87,446	-	-	-	87,446
Total assets	16,386,835	1,855,738	5,943	59,954	18,308,470
<b>Liabilities</b>					
Accounts payable	15,439	-	972	-	16,411
Accrued and other liabilities	1,435	-	-	-	1,435
Total liabilities	16,874	-	972	-	17,846
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u>\$ 16,369,961</u>	<u>\$ 1,855,738</u>	<u>\$ 4,971</u>	<u>\$ 59,954</u>	<u>\$ 18,290,624</u>



# City of Farmington, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Pension and Other Employee Benefit Funds Year Ended June 30, 2006

	Pension and Other Employee Benefits				
	Employees' Retirement System	Public Employee Health Care Fund	Employee Fringe Benefits Fund	Disability Health Insurance Fund	Total
<b>Additions</b>					
Investment income:					
Interest and dividends	\$ 433,117	\$ 47,357	\$ 457	\$ 2,207	\$ 483,138
Net realized and unrealized gain on investments	652,966	44,337	-	-	697,303
Less investment expenses	(123,596)	-	-	-	(123,596)
Net investment income	962,487	91,694	457	2,207	1,056,845
Contributions:					
Employer	341,110	374,685	-	1,140	716,935
Employee	54,838	-	260	1,140	56,238
Total contributions	395,948	374,685	260	2,280	773,173
Total additions	1,358,435	466,379	717	4,487	1,830,018
<b>Deductions</b>					
Benefit payments	781,321	-	14,390	-	795,711
Insurance costs	-	282,808	-	-	282,808
Total deductions	781,321	282,808	14,390	-	1,078,519
<b>Net Increase (Decrease) in Plan Assets</b>	577,114	183,571	(13,673)	4,487	751,499
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>					
Beginning of year	15,792,847	1,672,167	18,644	55,467	17,539,125
End of year	<u>\$ 16,369,961</u>	<u>\$ 1,855,738</u>	<u>\$ 4,971</u>	<u>\$ 59,954</u>	<u>\$ 18,290,624</u>

September 15, 2006

Honorable Mayor and Members  
of the City Council  
City of Farmington  
23600 Liberty  
Farmington, MI 48335

Dear Mayor and City Council Members:

We recently completed our audit of the basic financial statements of the City of Farmington for the year ended June 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

#### STATE SHARED REVENUE

This year's budget discussion offered hope of an increase in revenue sharing from the last several years. Revenue sharing was identified as a priority by the Legislature during its initial budget discussions in the winter and several proposals existed which included a blanket increase in revenue sharing of several percent and one which tied the increase in revenue sharing to local governments who demonstrated that they had engaged in service sharing, service consolidation, etc. In the end, the summer budget comprises that occurred in July saw no increases in revenue sharing over the last several years.

With the appropriation reductions to revenue sharing since 2001 (including approximately \$600 million in fiscal year 2006/2007 over amounts calculated by the statutory formula), a number of City's are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing, (remember that the constitutional portion cannot be adjusted). Many City's no longer have any statutory revenue sharing remaining as a result. For those communities, because sales tax collections have increased, their revenue sharing is actually increasing because they are now only receiving constitutional revenue sharing. Essentially, the remaining amount of statutory revenue sharing in the State's budget (approximately \$400 million) is supporting cities, villages and larger, urban townships.

## STATE SHARED REVENUE (CONTINUED)

The statutory formula sunsets in 2007, so these remaining statutory revenue sharing dollars will receive considerable attention next year. Next year, the State will also need to begin dealing with counties again as it relates to statutory revenue sharing. In fiscal year 2004/2005, the State eliminated statutory revenue sharing received by counties (which was approximately \$182 million in fiscal year 2003/2004) and, in return, allowed the counties to advance the levy of their operating millage to July from December. The additional monies from the earlier levy were utilized to create a reserve fund by the counties to replace lost statutory revenue sharing. The expectation is that when the reserve funds at individual counties become depleted, the counties will re-enter the State's statutory revenue sharing formula. It is very possible that the return of county statutory revenue sharing could be at the expense of city, village and township statutory revenue sharing.

State shared revenue accounts for approximately 9.7% of the City's total General Fund revenue which only includes the constitutional portion as the statutory piece is now recorded in the Capital Project fund. The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$543,240	\$689,396	\$1,232,636	\$ -
2001	\$535,626	\$676,371	\$1,211,997	\$20,639
2002	\$480,972	\$683,261	\$1,164,233	\$68,403
2003	\$407,583	\$694,828	\$1,102,411	\$130,225
2004	\$303,515	\$687,280	\$990,795	\$241,841
2005	\$276,312	\$703,683	\$979,995	\$252,641
2006	\$253,472	\$715,397	\$968,869	\$263,767

If the State were to eliminate the statutory portion of revenue sharing, the City would lose approximately \$250,000 (as the constitutional portion cannot be modified without a change to the State's constitution). The City acknowledged this potential loss of revenue during the year and started to record the statutory portion in the capital improvement fund so the general fund would not be relying on these funds to balance the budget. We will continue to update the City as developments occur. The statutory formula expires in 2007 and requires action by the Legislature.

## UPDATE ON BUSINESS TAX REFORM

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget.

## PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2006	3.3%	2001	3.2%
2005	2.3%	2000	1.9%
2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%

As indicated above, growth in existing property is significantly limited due to Proposal A to an average of 2.48 percent annually over the past 10 years. This factor should be considered when the City is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result, despite general operating charter mills of 20, currently the Headlee limited mills are 16.2294 (a reduction of over 19 percent). Although the City's maximum allowable millage is 16.2294 in the current year, City only levied 11.0163 mills.

## **POST- EMPLOYMENT BENEFITS**

Two new accounting pronouncements were recently issued by the Governmental Accounting Standards Board (GASB). GASB 43 and 45 address the accounting and disclosures related to post-employment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. Starting in fiscal year 2007-2008, the City will be required to measure its retiree health care liability through actuarial valuations that are to be performed biannually. These valuations will compute an "annual required contribution". The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less. The City currently has funds set aside in the Public Employees Health Care Fund to help offset a portion of this liability. We commend the City for having the foresight to begin pre-funding this liability.

## **CABLE FRANCHISE FEES**

The State of Michigan has joined a number of other states considering statewide cable TV franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable TV providers, and also would apply to new providers who would provide service through phone lines. Providers would have to provide customers with local stations and "public access" stations, as is currently required for cable systems. Providers would have to pay a fee of up to five percent of gross revenues that would be given to local governments in lieu of the current local cable franchise fees. The legislature has decided to wait until after the November elections to continue discussions regarding this bill.

## **TASK FORCE REPORT ISSUED ON LOCAL GOVERNMENT FINANCE**

In 2005, the Governor commissioned a task force to further study Michigan's Municipal Finance Model. The Commission has completed their work and has released their report in May 2006. Findings of the report include:

- Revenue for local governments is flat, or declining due to reductions in state revenue sharing and the interaction of the Headlee Amendment and Proposal A. Mature urban centers have been impacted the hardest.
- While revenues have been restricted, many expenditures are increasing beyond the control of local government. The expenditures include, but are not limited to health care, pension liabilities, and public safety costs.
- The current finance system, based on obsolete revenue foundations, is not resilient or flexible enough to withstand out-migration of taxpayers, whether due to economic downturn or availability of developable land.
- Legacy costs of post-employment benefits to retired workers threaten to overtake the majority of available new revenue for local units.

## **TASK FORCE REPORT ISSUED ON LOCAL GOVERNMENT FINANCE (CONTINUED)**

- Deferring maintenance on critical infrastructure such as roads, sewers, water mains, and buildings, to meet ongoing increases in operating expenditures has left many local governments with crumbling infrastructure and growing future cost liabilities.

The full report can be accessed at: [www.migroa.org](http://www.migroa.org).

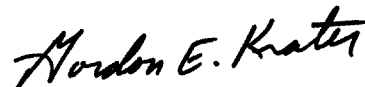
## **MUNICIPAL FINANCE ACT REVISIONS – REMINDER**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end June 30, 2006 and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

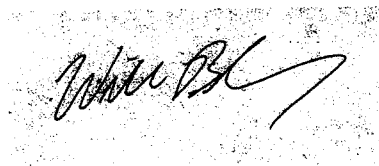
We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Gordon E. Krater



William E. Brickey